

Ms. Karen McKenzie  
Quality Care Management, Inc.  
Post Office Box 2669  
Pawleys Island, South Carolina 29585

Re: AC# 3-WIN-J7 – Winyah Convalescent Center

Dear Ms. McKenzie:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/sj

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Robert M. Kerr

**WINYAH CONVALESCENT CENTER  
GEORGETOWN, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 1998  
AC# 3-WIN-J7**

**REPORT ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 28, 1999

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Winyah Convalescent Center, for the contract periods beginning October 1, 1998 and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Winyah Convalescent Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Winyah Convalescent Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
July 28, 1999

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA  
State Auditor

**WINYAH CONVALESCENT CENTER**  
Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 1998  
AC# 3-WIN-J7

	<u>10/01/98-</u> <u>11/30/98</u>	<u>12/01/98-</u> <u>09/30/99</u>
Interim reimbursement rate (1)	\$90.13	\$90.88
Adjusted reimbursement rate	<u>86.35</u>	<u>87.10</u>
Decrease in reimbursement rate	\$ <u>3.78</u>	\$ <u>3.78</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 8, 1998

**WINYAH CONVALESCENT CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1998 Through November 30, 1998  
AC# 3-WIN-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$35.96	\$49.90	
Dietary		9.16	9.93	
Laundry/Housekeeping/Maint.		<u>6.86</u>	<u>8.11</u>	
Subtotal	\$ <u>4.76</u>	51.98	67.94	\$51.98
Administration & Med. Rec.	\$ <u>1.46</u>	<u>9.44</u>	<u>10.90</u>	<u>9.44</u>
Subtotal		61.42	\$ <u>78.84</u>	61.42
<u>Costs Not Subject to Standards:</u>				
Utilities		2.19		2.19
Special Services		3.14		3.14
Medical Supplies & Oxy.		7.40		7.40
Taxes and Insurance		1.27		1.27
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		\$ <u>75.42</u>		75.42
Inflation Factor (3.60%)				2.72
Cost of Capital				6.21
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.46
Cost Incentive				4.76
Effect of \$1.75 Cap on Cost/Profit Incentives				(4.47)
Minimum Wage Add-On				<u>.25</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				\$ <u>86.35</u>

**WINYAH CONVALESCENT CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Periods December 1, 1998 Through September 30, 1999  
AC# 3-WIN-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$35.96	\$49.90	
Dietary		9.16	9.93	
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Subtotal	<u>\$4.76</u>	51.98	67.94	\$51.98
Administration & Med. Rec.	<u>\$1.46</u>	<u>9.44</u>	<u>10.90</u>	<u>9.44</u>
Subtotal		61.42	<u>\$78.84</u>	61.42
<u>Costs Not Subject to Standards:</u>				
Utilities		2.19		2.19
Special Services		3.14		3.14
Medical Supplies & Oxy.		7.40		7.40
Taxes and Insurance		1.27		1.27
Legal Fees		<u>-</u>		<u>-</u>
<b>TOTAL</b>		<u>\$75.42</u>		75.42
Inflation Factor (3.60%)				2.72
Cost of Capital				6.21
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.46
Cost Incentive				4.76
Effect of \$1.75 Cap on Cost/Profit Incentives				(4.47)
Minimum Wage and CNA Add-Ons				<u>1.00</u>
<b>ADJUSTED REIMBURSEMENT RATE</b>				<u>\$87.10</u>



**WINYAH CONVALESCENT CENTER**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 1997  
 AC# 3-WIN-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$1,079,703	\$ -	\$ 9,688 (5) 653 (5)	\$1,069,362
Dietary	280,015	-	6,188 (4) 1,326 (5)	272,501
Laundry	44,315	-	2,673 (6)	41,642
Housekeeping	174,310	-	1,456 (5)	172,854
Maintenance	43,595	-	164 (5) 53,826 (7)	(10,395)
Administration & Medical Records	296,138	-	11,692 (2) 2,455 (4) 1,073 (5) 119 (5)	280,799
Utilities	70,913	-	5,645 (3)	65,268
Special Services	93,509	-	-	93,509
Medical Supplies & Oxygen	230,627	-	10,594 (4)	220,033
Taxes & Insurance	37,758	-	-	37,758
Legal Fees	-	-	-	-
Cost of Capital	<u>185,666</u>	<u>457 (1)</u>	<u>1,304 (8)</u>	<u>184,819</u>
Subtotal	2,536,549	457	108,856	2,428,150

**WINYAH CONVALESCENT CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1997  
AC# 3-WIN-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	56,867	-	-	56,867
Non-Allowable	433,765	11,692 (2) 5,645 (3) 13,183 (4) 14,479 (5) 2,673 (6) <u>1,304 (8)</u>	457 (1)	482,284
Total Operating Expenses	<u>\$3,027,181</u>	<u>\$49,433</u>	<u>\$109,313</u>	<u>\$2,967,301</u>
Total Patient Days	<u>*29,740</u>	<u>-</u>	<u>-</u>	<u>29,740</u>
* Adjusted to 97% occupancy				
Total Beds	<u>84</u>			

**WINYAH CONVALESCENT CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1997  
AC# 3-WIN-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 14,936	
	Cost of Capital	457	
	Accumulated Depreciation		\$ 9,742
	Other Equity		5,194
	Nonallowable		457
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	11,692	
	Administration		11,692
	To remove unnecessary working capital interest HIM-15-1, Section 202.2 State Plan, Attachment 4.19D		
3	Nonallowable	5,645	
	Utilities		5,645
	To adjust utilities expense to allowable HIM-15-1, Sections 2106.1, 2302.1, and 2304		
4	Retained Earnings	6,054	
	Nonallowable	13,183	
	Dietary		6,188
	Administration		2,455
	Medical Supplies		10,594
	To properly charge expense applicable to the prior period and remove duplicate expense postings HIM-15-1, Sections 2302.1 and 2304		

**WINYAH CONVALESCENT CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1997  
AC# 3-WIN-J7

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	14,479	
	Nursing		9,688
	Restorative		653
	Dietary		1,326
	Housekeeping		1,456
	Maintenance		164
	Administration		1,073
	Medical Records		119
	To adjust fringe benefits and related allocation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Nonallowable	2,673	
	Laundry		2,673
	To adjust related party laundry cost to allowable HIM-15-1, Sections 1000 and 1005 State Plan, Attachment 4.19D		
7	Other Assets	65,657	
	Maintenance		53,826
	Retained Earnings		11,831
	To offset insurance proceeds against related expense HIM-15-1, Sections 2102.1, 2304, and 2328		

**WINYAH CONVALESCENT CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1997  
AC# 3-WIN-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Nonallowable Cost of Capital	1,304	1,304
	To adjust capital return to allowable State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$136,080</u>	<u>\$136,080</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**WINYAH CONVALESCENT CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1997  
AC# 3-WIN-J7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1814</u>
Deemed Asset Value (Per Bed)	34,069
Number of Beds	<u>84</u>
Deemed Asset Value	2,861,796
Improvements Since 1981	118,689
Accumulated Depreciation at 9/30/97	<u>(544,952)</u>
Deemed Depreciated Value	2,435,533
Market Rate of Return	<u>0.067</u>
Total Annual Return	163,181
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	163,181
Depreciation Expense	21,553
Amortization Expense	97
Capital Related Income Offsets	(12)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	184,819
Total Patient Days (Minimum 97% Occupancy)	<u>29,740</u>
Cost of Capital Per Diem	\$ <u><u>6.21</u></u>

**WINYAH CONVALESCENT CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1997  
AC# 3-WIN-J7

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$2.99
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>6.98</u>
Reimbursable Cost of Capital Per Diem	\$6.21
Cost of Capital Per Diem	<u>6.21</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>